JAMES UNDERWOOD & ASSOCIATES PTY LTD

Newsletter

No. 3&4/05

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1. CONVERTING LUMP SUMS TO PARTIAL PERIODIC PAYMENTS

The changes to the Centrelink and DVA Assets Test from 1 July 05 introduced a new item: exemption of the value of homes from the Assets Tests where that home is rented and the rent used to pay a periodic payment. In addition, the net rental is excluded from the Income Test. These exemptions remain in place throughout the resident's tenure in residential aged care – as long as the house remains rented and the periodic payment is paid.

Previously, a bond paying resident's vacated home was included in the Assets Test automatically after the resident had been in residential aged care for two years.

Some residents who have entered aged care and paid a lump sum – either **before or after** 1 July 2005 – have asked if they can now convert some of that lump sum back to a periodic payment, to allow them to secure the exemption of their former residence from the Assets Test and to ensure the rental is exempt from the Income Test.

This firm sought and gained advices in this regard from the Department of Health and Ageing and from Centrelink. (The Aged Care Act had made it clear that any person could change a periodic payment into a lump sum at any time, but was silent on converting part or all of the lump sum to a periodic payment – perhaps because this was not envisaged at the time of drafting the Act in 1997).

We are pleased to say that the Department of Health and Ageing has advised that any person can change part or all of an already-paid lump sum back to a periodic payment, and Centrelink has advised that, upon changing that lump sum into a partial or full periodic payment, any rental on the house is exempt from the Income Test and the value of the house is exempted from the Assets Test for as long as the periodic payment is paid and the house rented.

Conclusion

It may well suit many residents and prospective residents to keep their homes and rent them and pay a periodic payment to the service provider.

It is usually helpful in marketing this option if the resident can pay at least a partial lump sum and agree to have the annual retention of $3,186 withdrawn from that lump sum. This will minimize the daily periodic payment. The periodic payment can often be struck at an amount equal to or below the net rental payments received on the house. This can be of great assistance in marketing admission to residential aged care by giving a good encouragement to persons to retain their home, at least for some considerable period of time whilst they decide what they would like to do with it.

2. BENTLEYS MRI / JU&A 2005 NATIONAL SURVEY

All providers are encouraged to participate in the 11th annual Residential Aged Care Services Financial and Operational Benchmark Survey. The closing date for the survey has been extended to Friday 4th November 2005. Please contact us directly for any assistance or to advise us if you are having any trouble meeting the revised closing date.

To assist providers with multiple services, we are providing the response form in an excel spreadsheet for the first time. This will hopefully enable ease of completion for multiple services and allow the form to be emailed back to us. The excel spreadsheet survey form can be accessed from the JU&A and Bentleys MRI websites, or just call us and we'll email it to you. The normal hard copy forms are also available for use by any provider.

We now provide the results of the National Survey in electronic excel spreadsheet format to allow you to incorporate them into your monthly or annual budget and review processes. With the 2005 survey results, we are also providing a second form of reporting where we use a "cost centre" list of accounts in addition to the normal "alphabetic" index. This cost centre style of reporting is to assist those aged care services that normally show their monthly or annual reports in this way. The cost centres are as follow:

- Care/Nursing
- Cleaning
- Laundry
- Catering
- Property Costs
- Administration Costs
- Wage On-costs
- Financing/Investment Costs

All the averages for the state-by-state Low and High Care services and the national averages will be provided to participants in both the cost centre method and the alphabetic list, and you will be able to choose which you prefer. Both will be on the excel spreadsheets we provide you.

We greatly look forward to presenting this 11th annual survey. It has been an industry standard for 11 years and is of huge benefit to the industry and the associations in charting changes and in providing benchmarks and best practice examples for providers.

Please call Dianne Robinson or Libby Madden on 07 3222 9777 for any assistance.

3. EXTRA SERVICES – WHY CHARGE A HIGHER FEE AT ALL?

This firm has assisted a very large number of services around Australia to seek and commence extra services, usually in High Care and usually for part-only of the High Care service. The dominant reason for seeking extra services approval is to allow Bonds to be sought from new High Care admissions to allow the high cost of building **and operating** single-room High Care services to be met in the same way as it is met in Low Care.

Some providers seek to have a strong differentiation between the accommodation, services, food and activities they provide in their extra services wings compared to their non-extra services wings. They are thus more able to justify to consumers charging a substantial additional fee in the extra services area.

Many other providers, however, have identical single-rooms in both the extra services and the non-extra services areas and have a high quality of services, food and activities across the entire facility. There is little or no differentiation between the extra services area and the non-extra services area, and the admission staff may find it very difficult to explain why there is an additional fee for the extra services wings.

Normally, we have suggested to services that they offer new residents the opportunity to defer payment of part or all of any additional fee by having it withdrawn from the Bond balance, thus keeping the monthly fee the same as non-extra services areas (or even lower because there is no accommodation charge). This system has worked very well and, where offered, we normally see over half of new admissions opting to have part of this fee withdrawn from the Bond balance.

Alternatively, the reality is that, for many services, the major enhancement to income they desire is through changing the Accommodation Bond, not through levying the additional fee. When viewed solely as income, the different benefits of Bonds versus charges are as follow:

$250,000 Bond	
$250,000 @5.5%p.a.	$13,750
Plus: Retentions	3,186
Total Income	$16,936p.a.
Maximum Accommodation Charge	
$16.63/day x 365 days =	$6,070p.a.
Difference	**$10,866p.a.**

The difference between taking an average of a $250,000 Bond and charging the maximum accommodation charge in High Care, using an investment rate of just 5.5%p.a., is $10,866p.a. or $**29.77**/day.

The minimum average additional fee which must be charged in extra services is $12.50/day, of which the Australian Government reduction in subsidy (the "clawback") is $2.50/day. Any service can choose to discount its total daily fees (prescribed fees are only maximums, not minimums) so an extra services home could choose to discount its total daily fee by $12.50/day, thus bringing them back to a fee identical with the normal basic fee for any Low Care person who has paid a Bond above $122,500 (i.e., identical to the fee which would have been charged to a Low Care resident who had paid a $250,000 Bond).

The foregone Australian Government subsidy of $2.50/day is just $912.50p.a. As the High Care service is already receiving $10,866p.a. more in income by taking Bonds instead of accommodation charges, if it were to forego recharging this minimum "clawback" of $912.50p.a. then it would still receive net $10,000/resident p.a. **more** in income by having ES in High Care. (That is over $27prpd!)

Conclusions

This firm sees strong acceptance of the payment of Bonds as a condition of entry into High Care services by those with sufficient assets. This acceptance has been enhanced by the 1 July 05 changes to the Centrelink/DVA Assets Test where the Bonds no longer form part of a resident's assessable assets and payment of sufficiently large Bonds enables persons to maintain or even increase their pension entitlements.

The big marketing challenge is usually not the Bond, but trying to "sell" an additional fee when little or no additional services are provided (because the entire home is new and attractive and already has a good quality of services, food and lifestyle). The service can discount its totally daily fee and the loss of effectively taking **no** additional Extra Services Amount fee can be minimized to under $1,000p.a.

Additional fees were perhaps more appropriate when Bonds of only $110,000 were common, not the situation today where, in most metropolitan regions, $200,000, $250,000 and $300,000+ Bonds can be sought and gained by good services. It is recommended that consideration be given to re-tailoring your extra services proposals to having a minimum (and subsequently nil) additional fee.

Please note that the closing date for the next round of extra services applications is Remembrance Day, 11 November 05.

4. CERTIFICATION – 31 DECEMBER 05 DEADLINE

Every provider must have all their nursing homes and/or hostels assessed to the 1999 Certification Instrument by 31 December 2005 and achieve a score of at least 19 out of 25 against Section One (Safety) and an overall score of at least 60 out of 100.

This requirement is regardless of what score was achieved in Section One or overall when a service's original certification was undertaken in 1997.

The Department's website as at 11 October 05 shows that, while some states have achieved a high level of adherence to this requirement (e.g., Victoria has 72% of it's services shown as a "pass" to this requirement), the services in many other states have a long way to go (e.g., Queensland with just 38.6% of services shown as a "pass").

It seems almost impossible to imagine that the over three-fifths of the industry in Queensland that are not yet shown as having passed their assessment to the 1999 Certification Instrument can be reviewed; have appropriate remedial action determined where necessary; have that action undertaken; and have the appropriate assessor declaration forwarded to the Department by 31 December 05.

It is the clearly stated intention of the Department that this successful certification assessment is to be completed by 31 December 05. The Department is forwarding letters to providers reminding them that failure to receive a pass mark to the 1999 instrument can render them liable to the consequences of losing certification that may include the inability to charge Bonds or accommodation charges or to receive concessional resident supplements and repayment of all accommodation Bond balances.

The Department had originally set 31 December 2003 as the date for services to meet the certification targets and then subsequently moved this to 31 December 2005. There have been no advices to this point of extensions beyond this 31 December 2005 date.

Effects of Assessment

In every case that this firm has seen, where a service has been reassessed to the 1999 Certification Instrument, the score for Section One (Safety) has **fallen** from the score that was achieved when the original certification assessment was undertaken in 1997. Almost invariably, this has resulted in services falling below the required 19 points out of 25 and substantial work has been required to meet the requirements of the 1999 Certification Instrument and have that work signed off by a suitably qualified assessor on the form shown at "Appendix H" in the Department's certification booklet.

Conclusion

If you believe you will not be able to meet the 31 December 05 deadline for submission of a completed notification of assessment to the 1999 Certification Instrument, then it is recommended that you contact your state office of the Department as soon as possible to discuss what timeframes you will be able to achieve.

5. DIFFERENTIAL BONDS

A number of Low and High Care Bond-taking services have very different types of rooms within the service. This may be to account for a difference in location – e.g. the "river view" rooms or the "courtyard" rooms – or it may be that they have double rooms, single rooms, apartments and suites.

It is perfectly appropriate for the service to determine different levels of Bonds for different types of rooms. (Persons cannot be asked to pay Bonds in excess of the normal requirement of their being left with a minimum of $30,500 in assets).

We frequently see residents who will take a lesser room as that is the only one vacant at time of admission, but ask to be able to transfer to an apartment or suite that is offered at a higher Bond when that becomes available.

We encourage providers to use Attachment One to our Residential Care Agreement – "Categories of Accommodation" – to show this "pricelist" of different rooms/suites, just like in a retirement village. You can then assess the resident's assets to determine if they can afford to pay the higher level of Bond applicable to the accommodation they would like to subsequently move to – as and when it comes available – and still be left with $30,500 in assets. You then specify in their agreement at time of admission to pay that higher Bond. Finally, you can **defer payment** of the higher Bond balance unless or until the more expensive room/suite becomes available and the resident moves to it.

For example, the large riverview rooms at your service may carry a Bond of $350,000. The courtyard rooms may be $200,000. Only a courtyard room is available today. The new resident has assets of $400,000 and wishes to move to a riverview room when available. You set a $350,000 Bond but defer payment of $150,000 of this Bond for as long as the resident is in the courtyard room.

In the absence of having this agreement at time of admission, this firm sees no way that a person could **subsequently** seek to pay a higher Bond (that is within their means) to move to a more attractive room that may come available sometime after entry.

6. GST ON EXTRA SERVICES AMOUNTS

Providers with extra services are reminded that GST may be applicable on additional services specified in an extra services agreement where those services are above normal "specified" services scheduled in the User Rights Principles. A typical example may be where complimentary hairdressing is provided. The assessed GST component on such additional service is rechargeable to residents **in addition to** their approved Extra Services Amount. Those homes that take the "minimalist" approach to extra services – i.e., where they simply provide attractive newer buildings; single or double ensuited rooms; and a good quality of services, food, activities and lifestyle – may have little or no "additional" services that will attract a GST component.

An assessment of any applicable GST plus recharging to the extra services resident is recommended to be carried out in conjunction with your tax accountant or tax adviser.

7. ACCOMMODATION BONDS – FAQs

Following is an excerpt from the Resident Admission Package that providers may wish to review and tailor for use in the information sheets they provide prospective residents:

ACCOMMODATION BONDS

FREQUENTLY ASKED QUESTIONS

1. What is a Bond?

The Bond is an asset-tested contribution towards the cost of your accommodation that is agreed at time of entry. Paying a Bond may allow you to continue to receive your highest pension entitlements because Bonds are exempt from the Centrelink or DVA Assets Test. A ‘retention’ of up to $3,186 p.a. is retained by us for up to five years. A Bond can be paid as a lump sum or as a periodic payment or as a combination of the two. You can elect to pay a higher Bond and have no retentions.

2. What is a Periodic Payment?

You may elect to pay an increased daily fee which is known as a periodic payment instead of paying all or part of your Bond as a lump sum to us. This is **interest** on the balance of any unpaid Bond amount and may also include the monthly retention. You may choose to subsequently pay the balance of your Bond as a lump sum at any future time. (No periodic payments would then be required.)

We recommend you speak with your financial advisers as to whether it is best to pay your Bond by lump sum, periodic payment or a combination of the two.

3. What are income-tested fees?

Income-tested fees are government-assessed “co-payments” towards the cost of your care, if you have sufficient income. This fee is **in addition to** your standard fees. The income-tested fee is 25c in the dollar of all deemed income in excess of $124/fortnight, provided the fee is above a minimum of $1/day. This means that a single pensioner would not have an income-tested fee until their **non**-pension income was above $180/fortnight. You would need “deemable assets” of over $108,840 to have “deemed income” above $180/fortnight. There are no income-tested fees on money held in Bonds, so paying larger bonds may keep your fees lower.

4. What if I have enough assets to afford the Bond but not enough regular income to pay the full monthly fees?

We acknowledge that some people have significant assets but limited income – “asset rich, but cash poor”. Subject to means-testing of your capacity to pay, we will “draw down” part or all of any periodic payments or income-tested fees from your Bond.

5. If I pay tax, will the Medical Expenses Rebate reduce my overall cost?

If you have sufficient income to be currently paying tax, your tax assessment can be reduced because your payments to us may be tax-rebateable. Payments made to us may qualify for a taxation rebate, provided that you have been classified at RCS Level 1 to 7.You should speak with your tax adviser.

Eligible expenditure for the rebate includes: daily fees; income-tested fees; extra services fees; accommodation charges; retentions; and periodic payments. The Medical Expenses Tax Rebate is 20% on eligible expenditure above $1,500p.a.

Following the commencement of you paying aged care fees, the tax payable for many residents may be reduced or cease totally. (The Medicare Levy may still be payable.) If you receive a superannuation pension from which tax is withdrawn, you could speak to your financial adviser about having this adjusted following entry.

6. If I keep my home, and rent it out to provide income to pay a periodic payment, what are the Centrelink rules?

If you keep your home, it is automatically exempt from the Centrelink/DVA Assets Test for two years after you enter a residential aged care service. After two years, your pension will be *normally* re-assessed under the "non-homeowners assets test" with the value of your home **included** as an asset.

However, your home is **exempt** from the Centrelink/DVA Assets Test for as long as you rent it out to pay a full **or partial** periodic payment in lieu of a full Bond lump sum. In addition, the rent you receive is excluded from consideration in the Centrelink/DVA Income Test for pension entitlements and from income-tested fee calculations.

The best option will vary from person to person depending on your financial circumstances. Independent financial advice is strongly recommended.

7. Can I convert part of a lump sum Bond into a periodic payment?

Yes, you can, subject to the agreement of the service provider. Even if you paid all of your bond as a lump sum some time ago, you can ask for some or all of the bond to be changed to a periodic payment now.

8. Can I transfer my Bond if I move to a nursing home (in lieu of paying an accommodation charge)?

Many nursing homes (High Care services) welcome the transfer of higher Bonds (e.g. in excess of $100,000) when a person transfers from a hostel (Low Care service) to a nursing home.

9. Can I place <u>additional</u> money into a Bond to maximise my pension entitlements?

At time of entering, you may negotiate a higher Bond. We are able to waive part or all of Bond retentions if you elect to pay higher Bond amounts. We may also be able to waive part of your daily fees on payment of larger Bond amounts. You should also check with your financial advisers and with Centrelink/DVA as to the effect of these waivers on your pension entitlement using the Assets Tests **and** the Income Test.

8. REASSESSMENT OF FINANCIAL STATUS ON TRANSFERRING TO A DIFFERENT SERVICE

(i) Changing to Concessional Status on Transfer to a High Care Service?

A person's concessional status is determined only at the time of first entry into a service. If a person was determined to be able to pay a very small Bond – say $18,000 – seven years ago and has subsequently spent or exhausted their other capital and now has only $8,000 after retentions available on transfer to a nursing home, they **cannot** be assessed as concessional **unless** they have more than 28 days away from residential aged care (e.g. >28 days in hospital **after** being fully discharged from a hostel, not just on hospital leave). The choices for the nursing home provider are to accept the transfer of the fully "retended" $8,000 Bond or to assess the person's capacity to pay an accommodation charge **not** to assess the person as concessional.

If a resident would be unable to pay an accommodation charge because they may have fully exhausted a Bond, this may be an area for an operation of the "hardship" rules and Department advice should be sought.

(ii) Seeking Higher Bonds

There is no capacity to seek a higher Bond when a person transfers from one hostel to another hostel or from a hostel to an extra services High Care facility. The Bond a resident was originally assessed to pay is the only Bond that they can be requested to pay at their new service unless, again, they have been out of residential aged care for more than 28 days (and not on leave).

Residents may not be asked to pay a higher Bond even if they have the capacity to pay a higher Bond and wish to pay a higher Bond.

9. DEEMING FUND BROCHURES

Deeming funds are where religious and charitable organisations have sought and gained approval from the Minister for Human Services to have deposits to their building fund or similar fund approved for exemption from the Centrelink/DVA income deeming provisions. These funds have diminished in usefulness in recent years because of the property boom. Many people entering residential care and selling their homes today have their pension reduced by the operation of the Assets Test, not the Income Test.

In addition, since 1 July 05, persons have been able to reduce the impact of the Assets Test by paying larger Bonds because the Bonds are no longer assessable as assets.

However, the Assets Test commences to impact on a single home-owning pensioner only once their assets are above $270,500, so persons with assessable assets below this level may still seek to take advantage of making deposits to a deeming fund to maximise their pension entitlements.

JU&A continues to produce sample brochures explaining the benefits of deeming funds and we update these twice a year when pension and Asset Test levels change. All providers are welcome to access complimentary copies of these brochures. Providers have to ensure that the brochure is appropriate to the type of deeming approval that they have sought and gained – i.e., whether they have a "pooled" or a "non-pooled" deeming fund, and whether they use just the income from the deeming fund for building works or both the income **and** the capital.

10. RESIDENT ADMISSION PACKAGE (RESIDENT AGREEMENT) CHANGES

2005/06 Updates

JU&A greatly appreciates the over 300 services Australia-wide that utilise our Resident Admission Package including resident agreements for permanent residents and for respite residents and the User Handbook. Currently, about half of all licence holders use our auto-update service where the package is updated and emailed out quarterly. The other half elect to purchase updates to the package only periodically.

Those groups that have not updated their Resident Admission Package for a couple of years are reminded that they do not have to purchase another licence – they hold the licence permanently – and a site can get a completely new updated agreement plus the full 12 months auto-updates for just $330 for a site. A site includes all RACS ID No. services co-located on the one site. Where an organisation has multiple locations, additional sites to be licenced to use the package cost just $115p.a. (inc. GST).

The 1 Jul 05 asset testing changes made it even more important to have clauses to allow recalculation of accommodation Bonds and accommodation charges where incorrect information is received and subsequently adjusted on receipt of the Centrelink/DVA asset testing advice. Further, the agreement allows providers to easily offer flexible Bonds, periodic payments or a combination of the two, plus provides for the option of having periodic payments withdrawn from lump sum payments at the resident's option.

The change this year in Victoria to allow most services approved under the Aged Care Act (hostels and nursing homes) to be excluded from the operation of the Retirement Villages Act makes it simpler than ever to utilize our Aged Care Act-based resident agreement.

James Underwood and Associates Newsletter is produced two-monthly by James Underwood & Associates Pty Ltd, advisers to the nursing home, hostel and retirement village industry.

If you would like to be added to our mailing list, or for any further information, please contact our office on (07) 3222 9666.

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